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Contract Caterers

A Study in Contrasts

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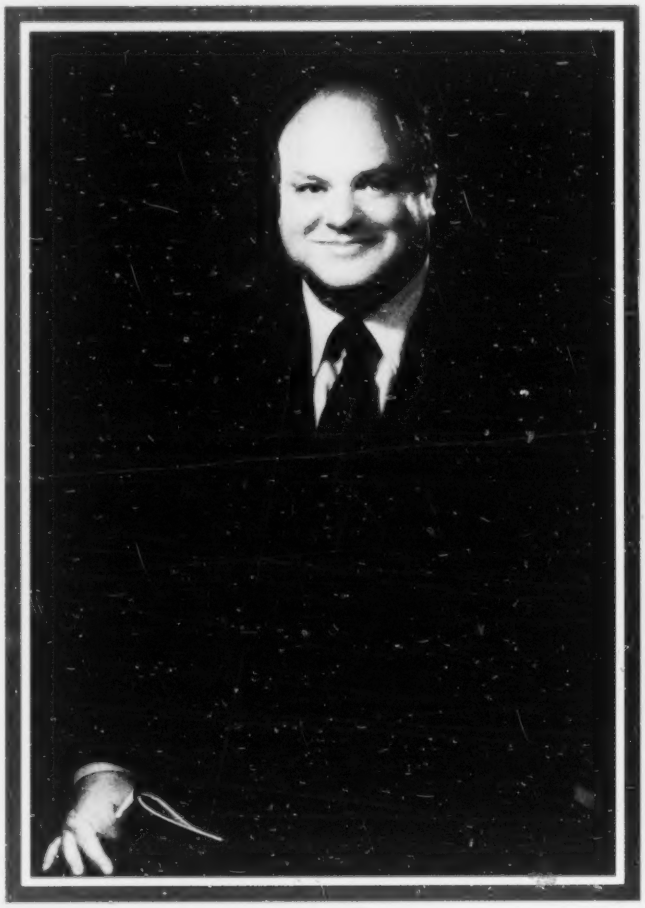

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Restaurant Business

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In today's competitive climate, every contract caterer must sell itself as a service company points above the rest. We profile two companies that make a difference. Araserve, the largest foodservice division of Philadelphia-based industry leader ARA Services, uses its company's size to best advantage by mass producing effective merchandising materials and state-of-the-art computer programs. Emphasizing its small size and personalized service, Wheeling, West Virginia-based Aladdin Food Management Services carves a regional niche by taking a smaller profit and returning the difference to clients. *RB* examines the contrasts and similarities of these two contract caterers.....163

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MARKET SEGMENT REPORT

MEXICAN

Mexican food moves into the mainstream

by Jacque White Kochak

Although Mexican food—full service and fast food—continues to be regional in terms of appeal, its popularity is growing and the segment is very healthy.

The Mexican segment is as hot as salsa right now, with acquisitions being announced one after another and several chains jockeying for key positions. Although some companies have suffered setbacks, observers pronounce the segment healthy.

Taco Bell, with some 2,000 units, continues to reign as the largest Mexican chain in the country, but W.R. Grace, through two of its subsidiaries, is positioning itself through acquisitions to become a major contender. And although some Mexican dinner house companies have cut back on expansion because of softened sales, Mexican fast food chains are enthusiastically pursuing growth.

The Mexican segment is really two segments, with distinctly different characteristics. In the Mexican dinner house segment, the food is growing increasingly more sophisticated, and diners are becoming more discriminating because of the proliferation of concepts. The competition is definitely getting tougher.

Meanwhile, Mexican fast food chains are moving more and more into the mainstream, with the market broadening. People of all ages are identifying Mexican fast food less as an ethnic specialty and more as an All-American food, right up there with hot dogs, hamburgers, and pizza. As a result, Mexican fast feeders are increasingly identifying their competition as other fast food operators, such as McDonald's and Wendy's, rather than other Mexican operations.

"Mexican fast food is in a stage comparable to burgers 15 years ago," says one executive. "The segment is characterized by owner/operators and smaller, regional chains. However, we're starting to see owner/operators becoming franchisees of larger chains or selling out. As they begin to compete with the whole fast food segment, they need more market penetration and more marketing clout. I think that as the segment continues to develop we will see the emergence of one, two or three large chains."

Fajitas are the hottest item in the dinner house segment.

The prevalence of Mexican food, both full service and fast food, continues to be quite regional. Yet Mexican food is also continuing to be popular; one source claims that tacos appear on school lunch menus more frequently than hamburgers. That accounts for much of the optimism about future growth;

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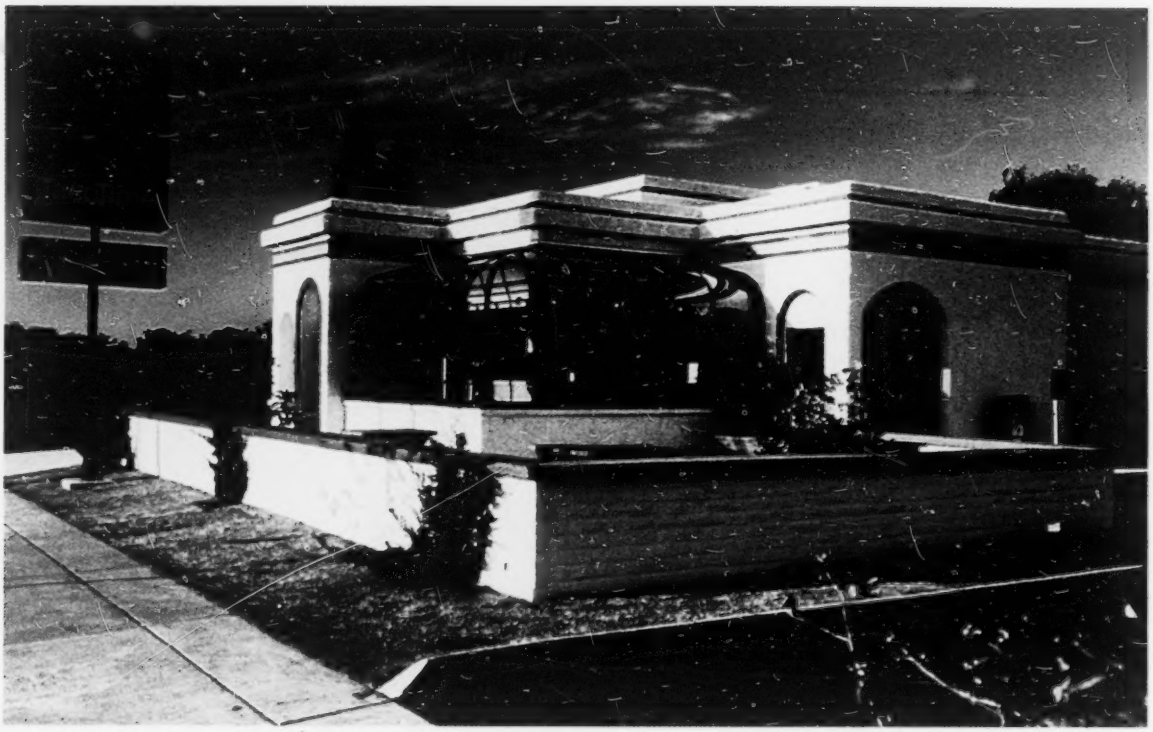

Taco Time's new protoypes have bright and airy solarium dining rooms, as well as drive-thrus.

while the Southwest and West Coast are well-developed, the whole Midwest and Southeast are just beginning to see significant development, and the Northeast is still almost virgin territory. Not surprisingly, the Northeast has been pinpointed by several companies as a focus for growth.

According to the Spring 1984 RECOUNT study compiled by the Restaurant Consulting Group Inc. (the most recent period for which such statistics were available), there are 11,851 Mexican restaurants throughout the U.S. Of those, 3,986 are located in the Pacific states, for 33.6 percent of that total. A total of 2,704 (22.8 percent of Mexican restaurants) are located in the West-/South Central states, and 1,331 (11.2 percent) are located in the Mountain states. A paltry 116 are located in the New England states, for only 1 percent of total Mexican restaurants. The other regions fall somewhere in between these two extremes (see accompanying chart).

Despite the greater number of Mexican restaurants in the Southwest and West, no one mentions saturation. There are more Mexican restaurants, but the frequency of dining out on Mexican food is much higher in those parts of the country than in any other parts.

Franchising of Mexican restaurants is also growing at a rapid pace, third only to franchising of "sandwich and other" and "pizza" establishments, according to the U.S. Department of Commerce. The number of Mexican units operated or franchised increased 52 percent between 1979 and 1984, compared to 100 per-cent for "sandwich and other" and "pizza."

Mexican dinner houses

Chi-Chi's and El Torito are both front-runners for the title of the largest Mexican dinner house chain. El Torito (a W.R. Grace subsidiary) is now taking the lead, mainly through acquisition, as Chi-Chi's slows expansion.

Chi-Chi's had 96 company-owned units and 78 franchised units at the end of 1984. In May, major franchisee Kelly-Johnston, based in Oklahoma, filed for Chapter 11 bankruptcy, taking 16 Chi-Chi's units along. Their fate is uncertain at this point. What is more, Chi-Chi's posted the lowest earnings ever in its history for fiscal 1985, and company officials did not respond to repeated phone calls by *Restaurant Business*.

Chi-Chi's is still a strong and viable contender, however, according to observers. "I feel better than I have at any time in the last couple of years about Chi-Chi's," says Michael Culp, an analyst who follows the company's stock for Prudential Bache. "I'm not roaringly bullish, but their expansion approach now seems more level-headed. The company had an obsession for over 50 percent a year earnings growth, and in a time when inflation is low that meant very rapid expansion."

Chi-Chi's opened too many stores too fast in existing markets where successful stores already operated, Culp says. The company now has slowed expansion, with 30 company stores expected to open by the end of 1985, along with three or four fran-

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chised units.

Culp says that Chi-Chi's now posts annual volumes of about $2.24 million, down about 10 percent from last year. In addition, earnings growth is now in the 15-20 percent range, which is "still nothing to apologize for," he notes.

Chi-Chi's food is generally considered to be blander and less sophisticated than that of many of the other Mexican dinner houses, and some observers say that customers have outgrown the menu. Chi-Chi's newest menu introduction came about a year ago, with a line of fajitas (the chain calls theirs "chajitas") and grilled meat and chicken entrees. That line now accounts for 12 to 13 percent of sales, says Culp.

Some observers also say that Chi-Chi's has suffered because its very large buildings permit the placement of only a few in a given market. "They have gone in with three or four stores, and as a result they can't do much advertising," says one competitor. "In addition, customers have to drive so far that the dinner has to be a special occasion."

Culp says that Chi-Chi's is solving this problem by developing several different prototypes. One is a 7,500-sq.-ft. mini store, in contrast to the 10,000-sq.-ft. standard. Seven such units were opened last year, with two or three this year. The bulk of expansion will be with a new 8,500-sq.-ft. unit, he says.

Rapidly eclipsing Chi-Chi's in size is Irvine, California-based El Torito, a subsidiary of W.R. Grace & Co. While El Torito's 1984 sales of $250 million for 170 units did not reach Chi-Chi's 1984 sales of $273.3 million for 174 units, El Torito is growing rapidly this year.

The company completed the purchase of 24 Casa Marias in June, and is currently in the middle of the acquisition of 26-unit Casa Gallardo from parent company General Mills. Some of the Casa Marias are currently being converted to El Toritos. El Torito executive vice president Fred LeFranc says that it is too early to say what the company will do with the Casa Gallardos.

In addition to the acquired units, the company will open 20 to 25 new units a year, says LeFranc. Focus will be on the Northeast, Chicago, the Southeast (specifically Florida), and on the West Coast.

Besides its El Torito units,the company also operates four Que Pasa Mexican Cafes, which will be expanding in the Midwest. Two are scheduled to open soon in Chicago. Also in the El Torito stable is Las Brisas, a very sophisticated Mexican concept with sales in excess of $5 million yearly. A second Las Brisas is opening soon in Boston. Other El Torito concepts: five Who Song & Larry's; 12 Tequila Willy's; eight La Fiestas; eight Annie's Santa Fes; two Rosa Coronas; and six specialty restaurants ranging from Copa de Oro, a luxury Mexican concept, to Remick's, serving Continental and Ca-

Based on the first unit's success, El Rio Grande's owners plan at least four more related restaurants.

jun specialties.

El Torito's menu is generaly seen as being more sophisticated and varied than Chi-Chi's, and LeFranc views this as the company's strength.

"El Torito started in California over 30 years ago, and on the West Coast we have evolved and fleshed out our menus. People here are much more knowledgeable about Mexican food," says LeFranc. "Now we are seeing the same phenomenon in areas that five years ago were almost completely unfamiliar with Mexican food. It happened faster than we thought it would; once people break the mental barrier about Mexican food, they seem willing to try anything. I think Mexican food will become much like Italian food—an accepted part of American culture."

A new El Torito has just opened in the Empire State Building in New York City, considered a very tough market for national chains to break. The El Torito franchise (all others are company units) was opened by New York City's Riese Organization, which last year completed an unusual agreement with W.R. Grace & Co.to open a number of its concepts in the New York City area.

Riese holds the rights to develop El Torito within the city's five boroughs, and its agreement calls for 25 units over seven years. El Torito is opening units outside New York City in suburban Westchester County, New Jersey, and Long Island.

While Chi-Chi's and El Torito fight for market dominance, several smaller chains continue to stake out their territory. Chief among them are Texas-based El Chico and Monterey House. Other chains include California-based Acapulco Mexican Restaurants, Casa Bonita, and Garcia's of Scottsdale, as well as smaller chains like Ninfa's in Houston and Papagayo in Chapel Hill, North Carolina. Strong independents flourish everywhere, and some of these are regarded as "the leading edge" by the chains that are popularizing Mexican food.

El Chico rates as the third largest Mexican dinner house chain in the country, though 80 percent of the company's stores are located in Texas, Arkansas, Louisiana, and Oklahoma. The company's systemwide sales for fiscal year 1985 reached $89 million, up from $77 million the previous year, and average unit volume is slightly over $1.3 million.

In addition to 73 company El Chicos and 19 franchises, the company also operates six concept restaurants, two of them Mexican and four

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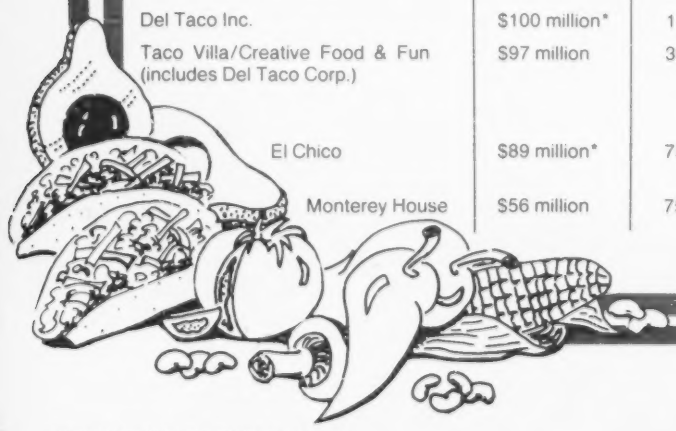
THE TOP TEN MEXICAN CHAINS

Name	1984 sales	No. units	Outlook
Taco Bell	$873 million	1,830	Expects 4,000 units by 1990. Is being positioned to compete against the fast food giants such as McDonald's and Burger King.
Chi-Chi's	$273.3 million	174	Despite softened sales and slower expansion, still viewed as being quite healthy and possessed of the marketing savvy to continue to compete.
El Torito	$250 million	170	Gobbling up competitors; just acquired Casa Maria and Casa Gallardo.
Naugles	$126 million*	220	Expansion halted, just suffered greatest stock value drop in history.
Taco John	$100 million*	402	Planning to open 60 more units in 1986, filling out its market areas from California to Indiana.
Taco Time International	$100 million*	232	Aggressively expanding; seeking franchisees in all 50 states.
Del Taco Inc.	$100 million*	175	Will open 10 to 12 units a year in California.
Taco Villa/Creative Food & Fun (includes Del Taco Corp.)	$97 million	390	Clearly aiming at the top, this W.R. Grace subsidiary originally consisted of Del Taco Mexican Cafes and T.J. Applebee's but recently acquired Taco Villa and Taco Viva.
El Chico	$89 million*	75	A strong regional chain now concentrating on franchising.
Monterey House	$56 million	75	Just started a franchising push and hopes to open units from Florida to California.

*Fiscal 1985 sales



aimed at young adults in general. The two Mexican concepts are Cantina Laredo, a country-style Mexican restaurant serving mesquite-broiled fish, chicken, and shrimp in the atmosphere of a "classy border cafe," and Casa Rosa, a more innovative, more upscale concept.

Expanding El Chico continues to be the company's main priority, however, and franchising has picked up dramatically. Ultimately, says vice president of marketing Richard Huston, franchised stores will account for a third of total units.

El Chico specializes in popular Tex/Mex items such as tacos and burritos. The low check average ($6) encourages high frequency, and the typical customer visits two or three times a month. The company is currently upgrading older units to "move the image into the '80s" says Huston. "We're finding that we have to evolve a more sophisticated menu, plate presentation, and decor to keep up with customers."

Like El Chico, Houston-based Monterey House is also a venerable company, boasting some 30 years in business. With about 75 units in Texas, Oklahoma, and Missouri, the company recently initiated a major franchising program and expects that eventually up to 30 percent of its units will be franchised. Expansion is slated for markets from Florida to Northern California.

Monterey House serves moderately priced Tex/Mex specialties such as tacos, enchiladas, refried beans, and chili. The restaurants offer full service, but are closer to fast food than El Chico. Average unit volumes for older units range between $725,000 and $750,000; higher volumes are expected from a new 125-seat prototype.

Joining in the game of shuffling ownership is Acapulco Mexican Restaurants, now being acquired by New York City's Restaurant Associates. RA operates 29 Charley Brown's as well as a number of specialty concepts and newsstands in hotels and airports.

Says Karen Mathison, Acapulco's Vice president of marketing: "RA was looking to establish on the West Coast, and the acquisition will provide us with their expertise."

Acapulco now operates 33 restaurants, with the bulk in Southern California. The company will continue to open five to six units a year, all on the West Coast. Total 1985 sales reached $49 million, with a wide

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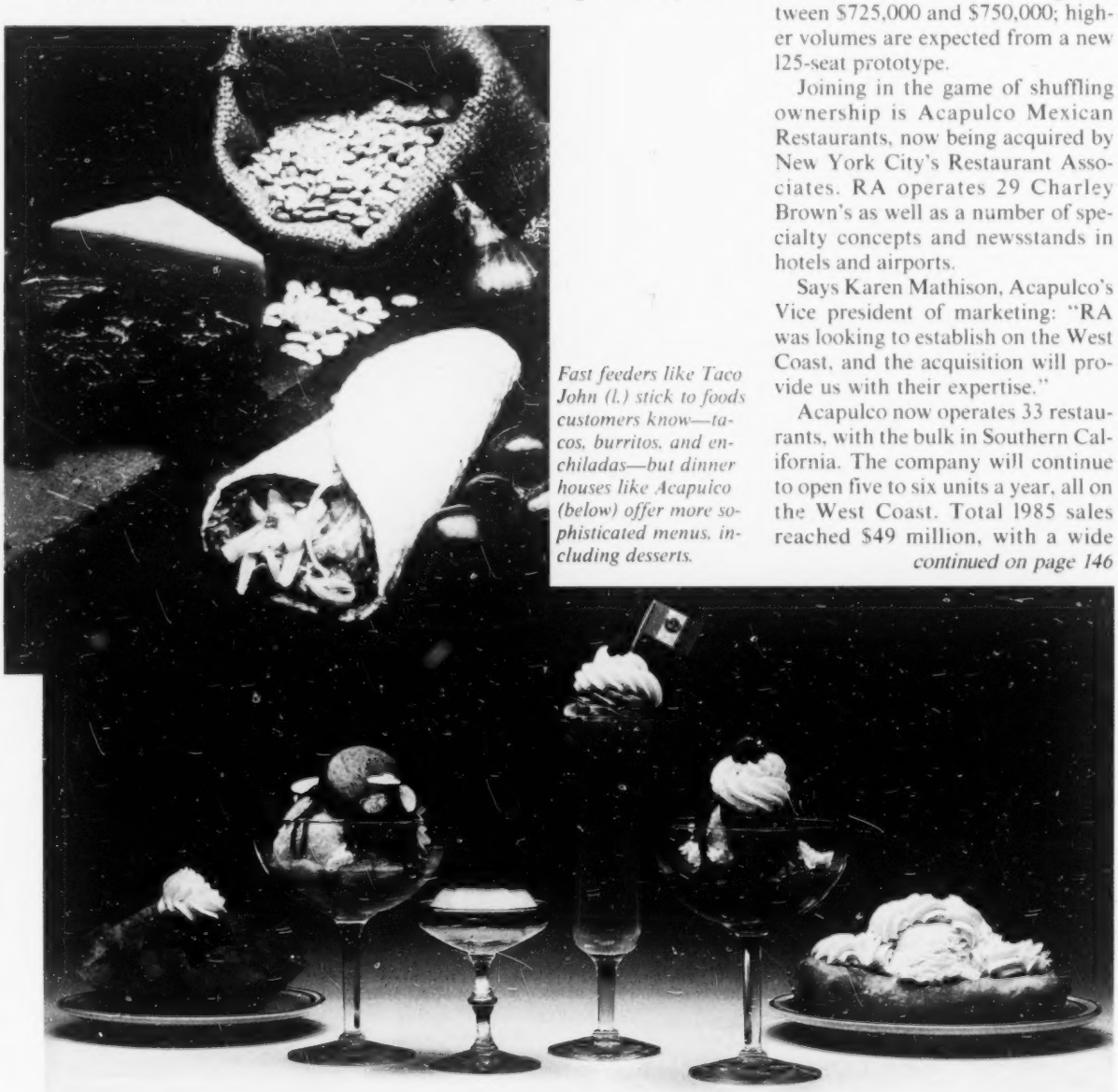
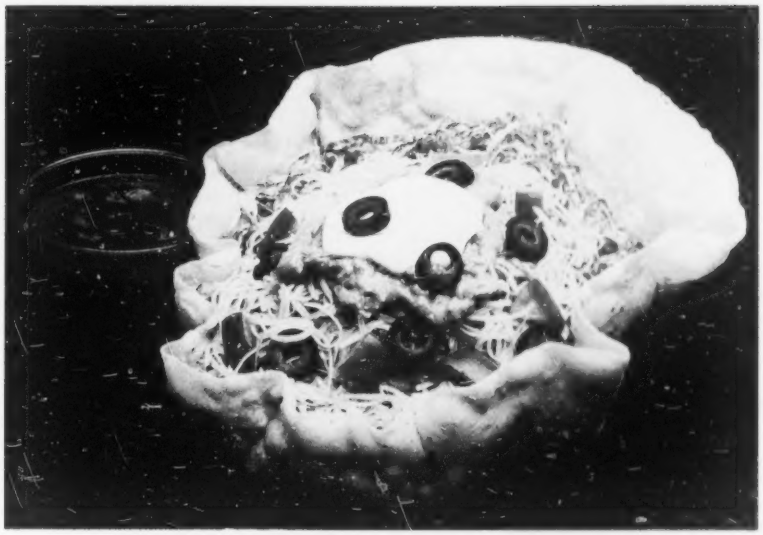


Fast feeders like Taco John (l.) stick to foods customers know—tacos, burritos, and enchiladas—but dinner houses like Acapulco (below) offer more sophisticated menus, including desserts.



Del Taco Inc. recently introduced a deluxe taco salad, priced at $3.19.

range of average unit volumes.

The company is undergoing a very extensive remodeling program, says Mathison. The object is to clean up the "oldness" of units opened in the '60s. The look is newer, cleaner, and more colorful.

Mathison says that Acapulco's sales have been soft for the last couple of years, but are "really looking up."

A small New York City chain that is gaining attention locally is El Rio Grande. The first unit opened in 1983, and caught the public's fancy with a varied menu of Mexican specialties, ranging from the ubiquitous tacos, enchiladas, and tostadas to more sophisticated specialties such as Mole Poblano (half a char-broiled chicken topped with a dark chocolate sauce) for $10.95.

El Rio Grande entertains customers with a touch of whimsy. When customers come in, they are asked by "border guards" whether they would like to sit in Texas or Mexico. Then they are led through the kitchen, across the Rio Grande River, and seated in the dining room of their choice.

Flushed with success (among other things, the restaurant sells 100 gallons of margaritas a day) El Rio Grande's owners have embarked on ambitious expansion. They plan to open several more units, including "El Rio Grande Mexico City," which will range over three levels and specialize in Mexican "tortas," or sandwiches, served on dinner rolls with refried beans and such ingredients as shredded beef and chorizo; El Rio Grande Allambre, serving grilled specialties; a saloon-type El Rio Grande, specializing in finger foods such as chimichangas and tacos; and a restaurant serving food influenced by both the Mexican and French traditions.

The hottest food trend in the Mexican dinner house segment now is fajitas, or grilled and marinated skirt steak. Apparently, the rage originated in Texas, where fajitas are so common that many non-Mexican restaurants serve the specialty. California-based El Torito introduced fajitas about 14 months ago. A year ago the company introduced chicken fajitas, and three months ago added shrimp fajitas; the various fajita dishes have proven to be very popular. Acapulco Mexican Restaurants is introducing fajitas in December, along with three other new specialties; El Chico recently introduced "sizzling fajitas," served on a hot skillet; and Chi-Chi's has its "chajitas."

Mexican fast food

Because of the trend toward mainstreaming, the most important trends affecting Mexican fast food are the same that are affecting fast food in general. Mexican fast food chains are upgrading facilities and expanding menus.

Taco Bell is aggressively pursuing a franchising push into new territories, and expects to double the number of units to around 4,000. The company is particularly attracted by markets in New York and the Northeast, where there are few units in operation.

The company's new "Pizzazz pizza," a combination of cheese, pizza sauce, ground beef, beans and vegetables on a taco shell, is prepared to order in one minute and feeds one or two. The pizza is priced at around $2, and has been enthusiastically received by the public. Company officials see the pizza as a tool in breaking into Northeast markets, where Mexican fast food is less familiar.

Taco Bell is definitely healthy; real growth exceeded 20 percent last year. The company is now in the process of converting units to a new, upgraded image with more comfortable and flexible seating, an enhanced interior, new uniforms and a condiment bar. The upgrade seeks to modernize without robbing Taco Bell of its ethnic flavor; colors are bright and bold, and Mexican art and artifacts are very apparent. New prototypes use more windows and glass for an airier, brighter look.

The second largest Mexican fast food chain in the country is Wyoming-based Taco John, with 402 units and plans to open up to 60 more units in 1986. Taco John units are strung north of the Mason-Dixon from California to Indiana; new units will fill in existing markets.

Taco John's 1985 fiscal year-end sales reached $100 million, with systemwide average unit volumes at $250,000 a year. A new prototype is showing averages of $350,000 a year, says Art Backer, director of marketing.

Like other fast food chains, Taco John is seeking more dinner business with the introduction of three dinner combos, all served with a "potato ole" (a deep-fried and seasoned potato round). The taco dinner con-

sists of a hard-shelled taco and a taco bravo; the enchilada dinner features two enchiladas with a new chile verde sauce; and the burrito combo features both a super burrito and a hard-shell burrito. All sell for around $2.60. The company also recently introduced a "Super Salad" in a 10-inch edible taco shell.

California-based Naugles, with 220 units, is a strong competitor on the West Coast. Units are also located in Missouri, Nevada, Illinois, Utah, Wisconsin, Florida, and Kansas. Only eight units are franchised.

Despite the strength of the Mexican fast food segment, Naugles recently suffered its biggest drop in stock value in the history of the company. As a result, expansion is on hold and Harold Butler has resigned as ceo and chairman of the board. Wayne Withers, formerly chief financial officer, will take his place.

Kelly Acosta, market department coordinator, says that the stock loss is being blamed on failure to promote the company, not on any softness in the segment. The problems are internal, she says, although average unit volumes (about $650,000 a year) have not dropped. The company has seen a drop in customer counts, she says, but nothing dramatic.

Naugles has introduced four dinner platters, weighing at least one pound each, that offer either a choice of chicken or beef along with side dishes such as salads, beans, and nachos. The platters are priced at $4.79; Naugles is considering cutting down portion sizes and lowering prices, Acosta says.

Oregon-based Taco Time International boasts 232 units in 14 states as far east as Iowa; only 18 are company-owned. The company expects to open five new company units and 20 new franchised units in the next year, according to Tamra Heathershaw, director of public relations. Growth is a priority for the company, with an emphasis on expanding company-owned locations and seeking franchisees in every state.

Like the others, Taco Time is adding to the menu and upgrading units. The company will soon introduce a chimichanga, which is a deep-fried combination burrito with sour cream, cheese, lettuce, and taco chips, priced at about $2.25. Last year, Taco Time introduced a new tostada and a "Casita Burrita," a soft flour tortilla with meat, beans, enchilada sauce, and sour cream, rolled and covered with enchilada sauce and cheese, lettuce, and tomato slices for about $1.95. A spicy chicken nuggets product will be introduced in the spring.

A new prototype unit features lots of oak trim, oak tables, brass planters, brass hanging lamps, and Southwestern American art, as well as drive-thrus and solarium dining.

Del Taco Inc. in California, which gave birth to Del Taco Corp., boasts 175 units, all in California, and fiscal year 1985 sales approaching $100 million. The company will be opening 10 to 12 units a year in California.

Del Taco Inc. also is adding to the menu, but spokesman William Coulter views some of the expanding menus and upgrading with alarm. "Too many are trying to upscale," he says. "I think somebody's going to have to stay here and be in the fast food industry. Prices are getting out of hand, and menus are getting ridiculous."

The company did come out with a

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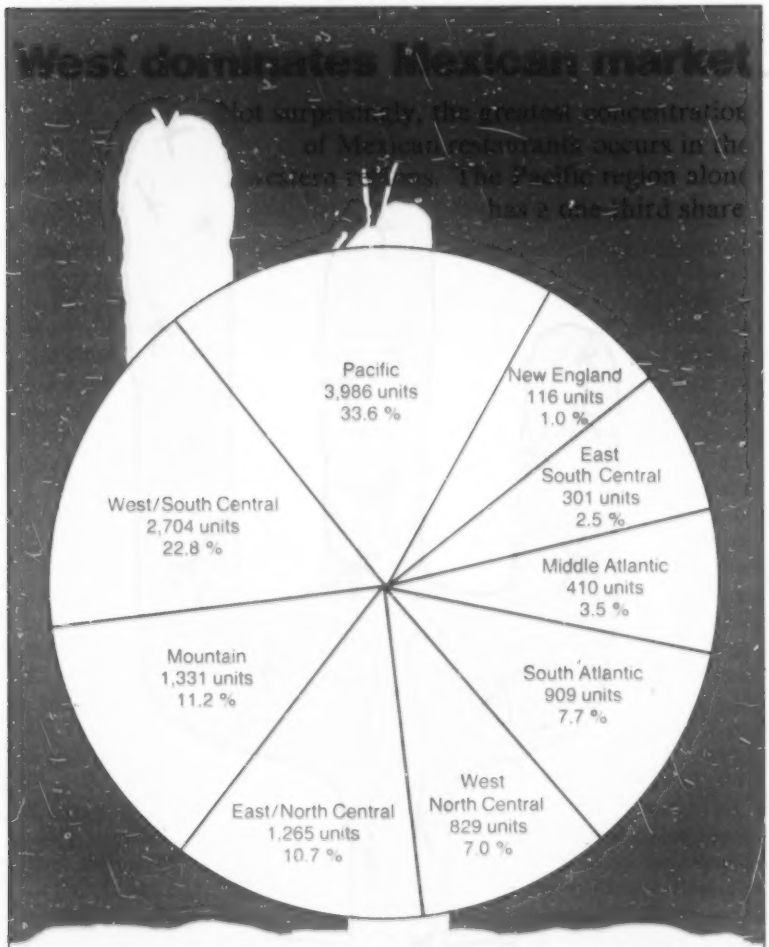

Note: Percentages represent distribution of Mexican restaurants by Census regions. There are 11,851 Mexican restaurants in the U.S.; 3.9 percent of total U.S. restaurants.
Source: Restaurant Consulting Group, RECOUNT, Spring 1984.

The trends that are affecting Mexican fast food are the same ones that are affecting fast food in general: menu expansion and decor upgrades.

large deluxe taco salad recently. The salad is served in a flour tortilla with lettuce, beans, meat, cheese, olives, tomatoes, sour cream, and guacamole, and sells for $3.19.

The company also introduced breakfast a year ago. In addition to hamburgers, tacos, burritos, pancakes, and eggs, the company offers Eggs Benedicto (an English muffin with scrambled eggs and a sausage patty topped with nacho cheese sauce) and an Egg-A-Rito sandwich.

Coulter says that, surprisingly, the standard hamburgers, tacos, and burritos sell three times better than the breakfast items during breakfast hours. "Particularly if we're on a marine base or near a freeway, we get a lot of people who eat dinner at 7 a.m.," he says.

An aggressive competitor was recently renamed Taco Villa/Creative Food & Fun, formerly Creative Food & Fun. The original company had two subsidiaries, Del Taco Corp. and T.J. Applebee's. Like El Torito, Taco Villa/Creative Food & Fun is a subsidiary of W.R. Grace, and like El Torito the company is busy gobbling up competitors.

The 170-unit Del Taco Corp. was originally an outgrowth of California-based Del Taco Inc., having bought rights to develop the entire country outside of California from the latter corporation. This year Creative Food & Fun acquired 146-unit Taco Villa, and now is in the process of acquiring 74 Taco Viva units in the Southeast. Because the company is in a quiet period surrounding the acquisition of Taco Viva, Dick Rivera, president of subsidiary Del Taco Corp., was reluctant to give details of plans for the two chains, but it is probably safe to guess that both Taco Villa and Taco Viva will be reshaped to fit the "adult fast food" niche that Del Taco Corp. was pursuing with its upgraded Del Taco Mexican Cafes.

The Del Taco Mexican Cafes fit comfortably into the gap between traditional fast food and the mid-priced Mexican dinner house. Though featuring quick service, the units serve beer, wine, and margaritas, as well as complete dinner entrees in a casual atmosphere highlighted by a patio, interior wall prints, cacti, ceiling fans, tablecloths, and music. They target an audience aged 21 to 49.

El Chico's Cantina Laredo sports a "country-style" Mexican motif and menu.

The combination of Del Taco Corp., Taco Villa, and Taco Viva creates a formidable chain with some 390 units and sales of some $97 million. In 1984, Del Taco Corp. posted sales of $56 million, while Taco Villa had sales of $28 million and Taco Viva had sales of $23 million. Del Taco Corp. will open 10-12 new units a year.

The first Mexican fast food chain to introduce fajitas was Wichita, Kansas-based Taco Tico. The steak fajita platter consists of marinated strip steaks with onions, tortillas, cheese, lettuce, tomatoes, guacamole, sour cream, chips and sauce; the company advertises the specialty with the slogan "Steak at Taco Tico. Eata Fajita," says marketing director Ken Lerman.

The new platter is part of a line of new menu introductions calculated to move Taco Tico into the category of "premium fast food," says Lerman. Other new menu items are a reformulated chili called "Chilicious;" a large size taco; "Appleata," a dessert of cinnamon crusts with hot apple pie filling and whipped cream; a new cheese dip; and a reformulated chili burrito.

Along with the new menu comes completely remodeled stores with a new Aztec motif. The new units feature lots of terra cotta tile, oak, plants, and indirect lighting.

Close to 60 percent of the units have been remodeled so far, with a 20 percent increase in sales attributed to the remodeling and another 20 percent attributed to the addition of drive-thrus.

Taco Tico has units primarily in Kansas, Arkansas, Missouri, Oklahoma, and Texas. Five new units opened in the last 12 months, and the company is planning more expansion.

Like everyone else, Lerman is extremely optimistic about Mexican fast food. "I think we're hamburgered out, chickened out, and pizzaed out," he says. "The trends are very positive for Mexican food."